



## Nestlé (Malaysia) Berhad

(4707 | NESZ MK) Main | Consumer Products & Services | Food & Beverages

### 12MFY23 Export Sales Normalised from High Base

#### KEY INVESTMENT HIGHLIGHTS

- **Within our expectation, yet above consensus'**
- **Higher dividend**
- **Better 4QFY23 core PATAMI on a yearly basis**
- **Cumulative revenue remained resilient supported by domestic sales**
- **Maintain NEUTRAL with an unchanged TP of RM129.70**

**Within our expectation, yet above consensus'.** Nestle Malaysia ("Nestle") reported a FY23 core PATAMI of RM772.8m, after excluding a one-time off item of RM112.9m. The earnings came in within our (103.6%) full-year FY23 projection but above consensus' (108.7%).

**Higher dividend.** The group proposed a 3rd interim dividend of 128sen/share in 4QFY23, bringing the total dividend for FY23 to 268sen/share and translating into dividend yield of 2.2%. This was higher than the total dividend of 262sen/share in FY22.

**Better 4QFY23 core PATAMI on a yearly basis.** The group record higher revenue in 4QFY23 (+2.3%yoy), mainly driven by positive domestic growth that more than offset some correction in export sales. Core PATAMI surged +32.5%yoy to RM199.3m in 4QFY23. This was largely attributed to higher sales, lower certain raw material costs, and the absence of prosperity tax.

**Higher core PATAMI on a quarterly basis despite reduced revenue in 4QFY23.** On a sequential basis, the group's revenue dropped -4.9%qoq to RM1.685b mainly due to reduced sales from F&B and other segments. Nevertheless, core PATAMI increased +9.1%qoq to RM199.3m largely due to slightly lower cost of sales and a lower effective tax rate thanks to the reinvestment allowance utilized in the quarter.

**Cumulative revenue remained resilient supported by domestic sales.** Nestle's higher FY23 revenue (+5.8%yoy) was mainly boosted by increased domestic sales that more than offset the lower export sales. This, along with normalization of certain commodities and the group's efforts on driving internal efficiencies and cost-saving initiatives, has driven the core PATAMI higher by +15.4%yoy to RM772.8m.

**Maintain NEUTRAL with an unchanged TP of RM129.70.** We make no changes to our earnings forecast for FY23-25F pending analyst briefing. Our unchanged TP is based on DDM valuation with a consistent 3.5% growth rate and WACC of 7.1%.

**Maintain NEUTRAL**

**Unchanged Target Price: RM129.70**

#### RETURN STATISTICS

Price @ 27 <sup>th</sup> Feb 2024 (RM)	121.50
Expected share price return (%)	+6.70
Expected dividend yield (%)	+2.90
<b>Expected total return (%)</b>	<b>+9.57</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.0	-0.9
3 months	3.4	-6.1
12 months	-10.1	-15.5

#### INVESTMENT STATISTICS

FYE Dec (RM'm)	2023E	2024F	2025F
Revenue	7,050.9	7,681.4	8,545.9
EBITDA	730.7	1,097.4	1,310.4
Profit Before Tax	879.1	1,098.1	1,310.5
Core PATAMI	771.8	842.1	1,005.0
Core EPS (sen)	329.1	359.1	428.6
DPS (sen)	268.0	355.1	423.7
Dividend Yield (%)	2.2	2.9	3.5

#### KEY STATISTICS

FBM KLCI	1,558.80
Issue shares (m)	234.50
Estimated free float (%)	14.97
Market Capitalisation (RM'm)	28,515.20
52-wk price range	RM111– RM138
3-mth average daily volume (m)	0.14
3-mth average daily value (RM'm)	17.30
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	10.36
BlackRock Inc	1.55

**Analyst(s)**

**Genevieve Ng** Pei Fen  
Genevieve.ng@midf.com.my

**Outlook.** Looking ahead, we are aware of the potential shift in Malaysian consumer preferences towards other local brands or cheaper alternatives. However, we anticipate Nestle's continued market leadership primarily due to its dominance in certain product categories, its well-known household name, and competitively priced products. We also anticipate that the normalization of major input ingredient prices (such as sugar, milk, and wheat), will help to offset the continuously rising costs of cocoa, Arabica, and Robusta. Therefore, we maintain our **NEUTRAL** call on Nestle.

**Valuation.** Nestle is currently trading at an FY24F P/E ratio of 33.8x, which is below its two-year average P/E ratio of 50.5x. Additionally, it offers a 2.9% dividend yield in FY24F. **Downside risks include** (i) a sharp increase in commodity prices; (ii) higher-than-expected energy costs; (iii) unfavorable exchange rates; and (iv) weaker-than-expected consumer demand due to macro headwinds as well as shifts in consumer preferences.

### Nestle Malaysia: 4QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	1,685.3	1,772.3	1,648.0	2.3	(4.9)	7,050.9	6,664.1	5.8
Cost of Sales	(1,144.3)	(1,210.3)	(1,139.5)	0.4	(5.4)	(4,819.9)	(4,603.3)	4.7
<b>Gross Profit</b>	<b>541.0</b>	<b>562.0</b>	<b>508.5</b>	<b>6.4</b>	<b>(3.7)</b>	<b>2,231.0</b>	<b>2,060.9</b>	<b>8.3</b>
Operating expenses	(347.9)	(346.8)	(311.3)	11.8	0.3	(1,291.7)	(1,158.0)	11.5
<b>Operating profit (EBIT)</b>	<b>193.0</b>	<b>215.3</b>	<b>197.2</b>	<b>(2.1)</b>	<b>(10.3)</b>	<b>939.3</b>	<b>902.9</b>	<b>4.0</b>
Net finance income/(cost)	(16.2)	(14.9)	(13.6)	19.7	8.5	(60.3)	(44.3)	36.3
<b>Profit before tax (PBT)</b>	<b>176.7</b>	<b>200.3</b>	<b>183.3</b>	<b>(3.6)</b>	<b>(11.8)</b>	<b>879.1</b>	<b>859.5</b>	<b>2.3</b>
Profit After tax (PAT)	148.1	133.7	132.9	11.5	10.8	659.9	620.3	6.4
PATAMI	148.1	133.7	132.9	11.5	10.8	659.9	620.3	6.4
<b>Core PATAMI</b>	<b>199.3</b>	<b>182.7</b>	<b>150.4</b>	<b>32.5</b>	<b>9.1</b>	<b>772.8</b>	<b>669.7</b>	<b>15.4</b>
Core EPS (sen)	85.0	77.9	64.1	32.5	9.1	329.5	285.6	15.4
DPS (sen)	128.0	70.0	122.0	4.9	82.9	268.0	262.0	2.3
<b>Growth &amp; Margin (%)</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Gross Profit Margin	32.1	31.7	30.9	1.2	0.4	31.6	30.9	0.7
Operating Profit Margin	11.5	12.1	12.0	(0.5)	(0.7)	13.3	13.5	(0.2)
PBT Margin	10.5	11.3	11.1	(0.6)	(0.8)	12.5	12.9	(0.4)
Core PATAMI Margin	11.8	10.3	9.1	2.7	1.5	11.0	10.0	0.9
<b>Ratios &amp; Valuation</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Net gearing (x)	1.1	0.8	1.2	(0.2)	0.2	1.1	1.2	(0.2)
Effective tax rate (%)	16.2	33.2	27.5	(11.4)	(17.1)	24.9	27.8	(2.9)

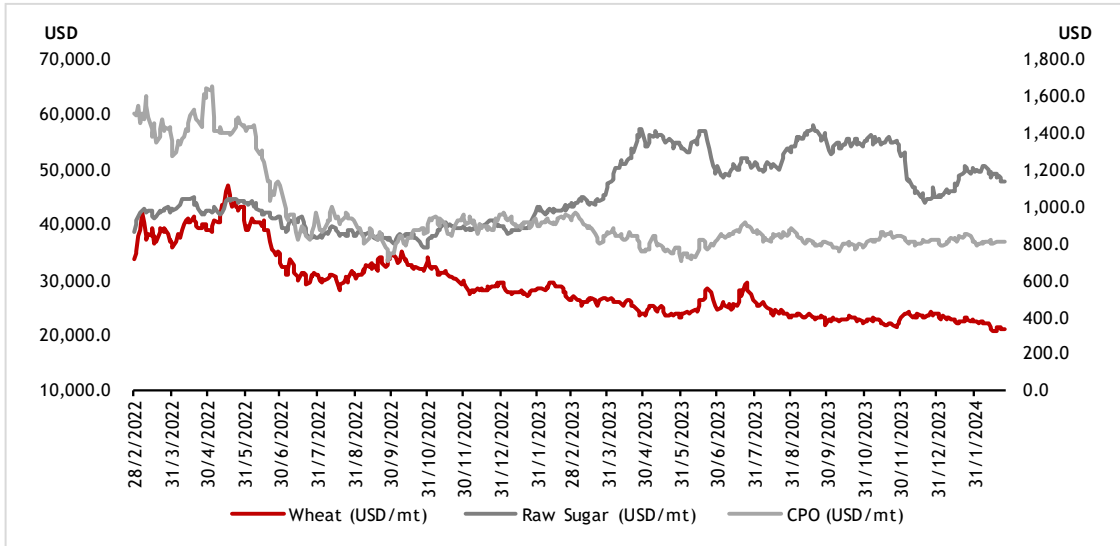
Source: Company, MIDFR

### Nestle Malaysia: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
<b>Revenue (External):</b>								
Food & Beverages	1,327.5	1,412.0	1,353.3	(1.9)	(6.0)	5,716.5	5,495.7	4.0
Others	357.8	360.3	294.7	21.4	(0.7)	1,334.3	1,168.5	14.2
<b>Total</b>	<b>1,685.3</b>	<b>1,772.3</b>	<b>1,648.0</b>	<b>2.3</b>	<b>(4.9)</b>	<b>7,050.9</b>	<b>6,664.1</b>	<b>5.8</b>
<b>Operating Profit:</b>								
Food & Beverages	185.7	170.9	186.6	(0.5)	8.7	824.2	812.6	1.4
Others	7.4	44.7	10.9	(31.7)	(83.4)	116.2	91.6	26.9
<b>Total</b>	<b>193.1</b>	<b>215.6</b>	<b>197.5</b>	<b>(2.2)</b>	<b>(10.4)</b>	<b>940.5</b>	<b>904.1</b>	<b>4.0</b>
<b>Operating profit margin:</b>								
Food & Beverages	14.0	12.1	13.8	0.2	1.9	14.4	14.8	(0.4)
Others	2.1	12.4	3.7	(1.6)	(10.3)	8.7	7.8	0.9
<b>Total</b>	<b>11.5</b>	<b>12.2</b>	<b>12.0</b>	<b>(0.5)</b>	<b>(0.7)</b>	<b>13.3</b>	<b>13.6</b>	<b>(0.2)</b>

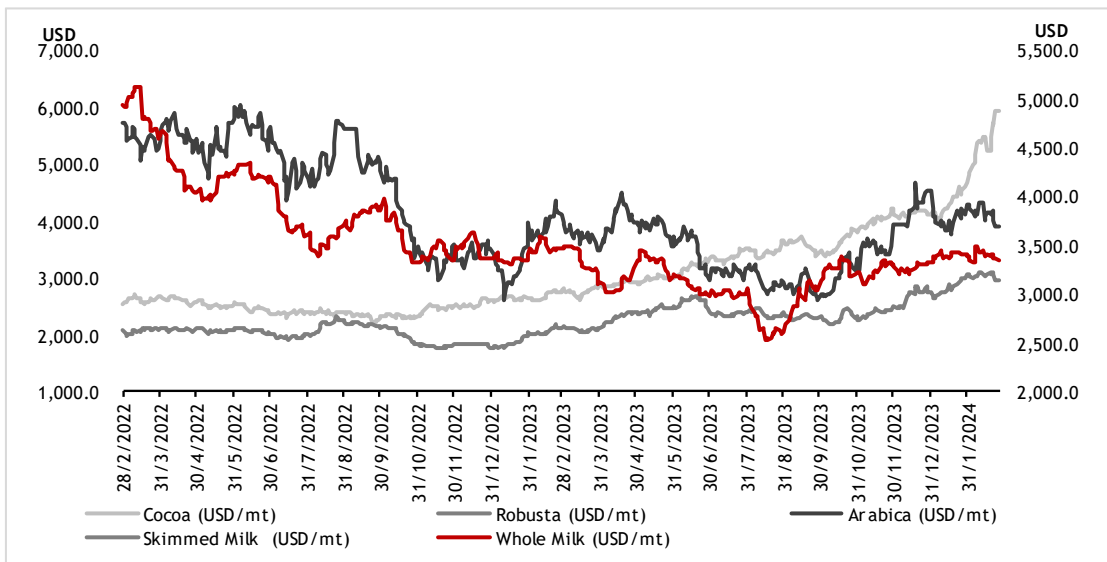
Source: Company, MIDFR

**TABLE 1: Wheat, Raw Sugar, CPO Futures Price Trend (USD/MT)**



Source: MIDFR, Bloomberg

**TABLE 2: Cocoa, Arabica, Robusta, Skimmed Milk Powder, Whole Milk Powder Futures Price Trend (USD/MT)**



Source: MIDFR, Bloomberg

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Revenue	5,733.8	6,664.1	7,050.9	7,681.4	8,545.9
Cost of Sales	(3,775.6)	(4,603.3)	(4,819.9)	(5,124.4)	(5,587.1)
<b>Gross Profit</b>	<b>1,958.2</b>	<b>2,060.9</b>	<b>2,231.0</b>	<b>2,557.0</b>	<b>2,958.8</b>
Other Income	3.7	0.0	0.0	3.5	4.1
Selling and Distribution expenses	(906.2)	(936.0)	(1,005.2)	(1,106.0)	(1,228.7)
General & Administrative	(186.0)	(194.0)	(225.8)	(265.7)	(325.1)
Other operating expenses	(83.8)	(27.9)	(60.7)	(31.5)	(37.0)
<b>EBITDA</b>	<b>981.4</b>	<b>1,110.4</b>	<b>730.7</b>	<b>1,097.4</b>	<b>1,310.4</b>
<b>EBIT</b>	<b>785.9</b>	<b>902.9</b>	<b>939.3</b>	<b>1,157.2</b>	<b>1,372.1</b>
<b>Profit before tax (PBT)</b>	<b>751.6</b>	<b>859.5</b>	<b>879.1</b>	<b>1,098.1</b>	<b>1,310.5</b>
Income tax expense	(182.0)	(239.1)	(219.2)	(256.0)	(305.5)
<b>PATAMI</b>	<b>569.6</b>	<b>620.3</b>	<b>659.9</b>	<b>842.1</b>	<b>1,005.0</b>
<b>Core PATAMI</b>	<b>575.3</b>	<b>632.3</b>	<b>771.8</b>	<b>842.1</b>	<b>1,005.0</b>
Core EPS (sen)	245.3	269.6	329.1	359.1	428.6
DPS (sen)	242.0	262.0	268.0	355.1	423.7

<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Property, plant and equipment	1,534.3	1,669.3	1,749.5	1,693.0	1,713.8
Intangible assets	63.3	62.2	234.4	70.2	77.4
<b>Total non-current assets</b>	<b>1,844.9</b>	<b>1,954.8</b>	<b>2,263.2</b>	<b>2,068.1</b>	<b>2,081.7</b>
Inventories	745.0	1,115.1	831.4	1,035.3	1,128.8
ST - Trade and other receivables	377.1	445.2	463.0	473.9	527.2
Cash and cash equivalents	6.9	8.2	11.0	9.5	10.6
<b>Total current assets</b>	<b>1,139.9</b>	<b>1,599.2</b>	<b>1,306.0</b>	<b>1,553.1</b>	<b>1,704.4</b>
<b>Total Assets</b>	<b>2,984.8</b>	<b>3,554.0</b>	<b>3,569.2</b>	<b>3,621.2</b>	<b>3,786.0</b>
<b>Total Equity</b>	<b>582.7</b>	<b>626.3</b>	<b>674.9</b>	<b>604.5</b>	<b>592.1</b>
LT Lease Liabilities	141.4	120.0	170.2	124.9	132.0
LT Loans and borrowings	100.0	300.0	300.0	306.0	309.1
Total non-current liabilities	473.7	668.7	756.4	678.2	695.1
<b>ST Trade and other payables</b>	<b>1,626.1</b>	<b>1,724.9</b>	<b>1,671.6</b>	<b>1,865.2</b>	<b>2,033.6</b>
ST Loans and borrowings	245.7	486.9	419.8	496.7	501.6
<b>Total Current Liabilities</b>	<b>1,928.4</b>	<b>2,259.0</b>	<b>2,137.9</b>	<b>2,338.6</b>	<b>2,498.8</b>
<b>Total Liabilities</b>	<b>2,402.1</b>	<b>2,927.7</b>	<b>2,894.3</b>	<b>3,016.7</b>	<b>3,194.0</b>

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Pretax profit	751.6	859.5	879.1	1,310.5	1,573.3
Cash flow from operations	887.5	511.5	1,276.2	1,120.9	1,332.0
Cash flow from investing	(266.3)	(309.7)	(501.5)	(61.8)	(70.2)
Cash flow from financing	(596.6)	(376.8)	(604.7)	(1,058.0)	(1,260.3)
<b>Net cash flow</b>	<b>24.5</b>	<b>(174.9)</b>	<b>170.0</b>	<b>1.1</b>	<b>1.5</b>
<b>Net cash/(debt) b/f</b>	<b>(28.3)</b>	<b>(3.8)</b>	<b>(178.7)</b>	<b>(8.8)</b>	<b>10.6</b>
<b>Net cash/(debt) c/f</b>	<b>(3.8)</b>	<b>(178.7)</b>	<b>(8.8)</b>	<b>10.6</b>	<b>12.2</b>

<b>Key Metrics</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Effective tax rate (%)	24.2	27.8	24.9	23.3	23.3
Dividend Yield (%)	2.0	2.2	2.2	2.9	3.5
PER (x)	50.0	45.8	43.2	33.8	28.3
Inventories (Days)	64.9	73.7	73.9	73.7	73.7
Net debt/total equity (x)	0.6	1.2	1.1	1.3	1.4

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Gross Profit Margin (%)	34.2	30.9	31.6	33.3	34.6
EBITDA Margin (%)	17.1	16.7	10.4	14.3	15.3
Core PATAMI Margin (%)	10.0	9.5	10.9	11.0	11.8

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology